

Testimony

Mr. Gordon Crow
Director of Government and Community Affairs
The Schwan Food Company

U.S. House of Representatives Agriculture Committee
Subcommittee on Department Operations, Oversight, Dairy, Nutrition and Forestry
Winona, Minnesota

May 31, 2006

Thank you, Mr. Chairman and members of the committee. My name is Gordon Crow. I am the director of government and community affairs for The Schwan Food Company based in Marshall, Minnesota. I want to thank the Chairman (Mr. Gutknecht) for holding this timely hearing in Minnesota and inviting Schwan to testify on the many important dairy policy issues affecting the industry today.

The story of Schwan exemplifies the spirit of American entrepreneurship. Marvin Schwan started selling and delivering ice cream to rural homes in Southwest Minnesota—about 300 miles west of here—in March of 1952, out of the back of a dilapidated 1946 Dodge panel van. At the time, Mr. Schwan and his parents ran a small dairy that was—ironically—struggling due to government price controls on milk.

Today, The Schwan Food Company is one of the largest branded frozen food companies in the world. It is a multi-billion dollar, international corporation, with major manufacturing operations in eight states, and three countries in Europe. Schwan employs about 22,000 people worldwide. Our brands can be found in more than 50 countries. Schwan products can be found in homes, supermarkets, convenience stores, public and private schools, military dining facilities, hospitals, universities, and many restaurants and entertainment venues. Seven out of 10 school lunchrooms carry our products, and about three-quarters of the frozen pies sold in America are manufactured by Schwan. It is reasonable to assert that Schwan is a local company that competes in a global market.

Mr. Chairman, as you know, the Federal dairy policy rules of today were laid out before Schwan; before interstate highways; before dependable refrigerated hauling. Most of the policies under which we labor today were created during the Great Depression, when the factors of trade in America and, needless to say internationally, were dramatically different. A tremendous opportunity exists for the U.S. dairy industry in today's marketplace. While I do not buy and sell commodities for Schwan, I have consulted with our commodity group and can tell you, in order to take advantage of this opportunity, we must look to the vast number of other commodities that are succeeding without layers of subsidies. We must adopt a coordinated Federal dairy policy that is flexible, market-oriented, and environmentally sound.

Let me illustrate my point. At Schwan, frozen pizza is one of our signature products. To make pizza, you need dough, sauce, cheese and toppings. I'm here to tell you that none of the other industries we deal with in the making of frozen pizzas face the same challenges as the dairy industry.

The government does not tell the flour mill from which we buy product what they must pay their wheat farmers, or the tomato paste manufacturer what it must pay tomato farmers for their perishable product, or the pepperoni company what it must pay the beef rancher. Equally confounding, with each of these ingredient providers, we have the opportunity to contract for a specific amount of product at mutually agreed upon, fair price. We are prohibited from forward contracting for our dairy ingredients based on the

unfounded fear that dairy farmers would in some way be harmed if we were allowed to voluntarily negotiate a fair price for the dairy products we buy.

No other commodity has regulated prices like dairy. Wheat growers - and other program crops, for that matter - have a safety net that allows them to preserve farmer income while at the same time clearing the market of surplus. Tomato producers do not have a federal safety net program. They rely on forward contracting ... and it is working well for them. Moreover, cattlemen, free from the restrictions of dairy-like pricing regulations, have been, and continue to, develop a variety of products that the consumer wants: whether it is lean beef, naturally produced, certified Angus, aged beef, guaranteed tender, or so forth.

My point is Congress needs to take action by overhauling our current dairy policy so that companies like Schwan can remain competitive in local, national and international markets. While a lot has changed since the 1950s at Schwan, the same cannot be said for the policies and regulations for milk and dairy products, which have our markets in a stranglehold.

Let me suggest that a new policy direction for dairy should address two key changes from the current antiquated system.

First, we need to change existing subsidy programs that weigh us down. As you have heard in testimony from across the country, the Milk Income Loss Contract (MILC) and dairy price support programs simply work against each other. They create a heavy financial burden for our government and interfere in the marketplace. In fact, as many have expressed, these inefficient programs work at cross-purposes and distort dairy market signals. We need to make sure that any new system affords assistance to the entire dairy industry while letting markets dictate production. Mr. Chairman, Schwan supports the existence of a safety net for dairy farmers. But, one that allows markets to operate unobstructed while still providing critical support for farmers. We cannot continue to suffer under two conflicting subsidy programs like the wheat industry did years ago.

Second, we need to open dairy markets at home and abroad. Trade restrictions on items such as milk protein concentrates, caseins and caseinates, or import assessments on similar products are simply bad ideas from the past. There are companies now making these highly refined dairy proteins in this country every day and, I might add, doing so successfully without having to rely on support programs, government subsidies or regulated minimum prices. And, restricting access to imported ingredients hurts our trade credibility, and our Minnesota businesses. American policy must set the standard for increased market access and efficient production ... both at home and abroad.

The federal dairy price support program is the main reason that the U.S. is not a world leader in the production of value-added dairy proteins because the program makes it more profitable for companies to sell nonfat dry milk powder to USDA than to invest in technology to make milk proteins demanded by the market. I know you are familiar, Mr.

Chairman, with the International Trade Commission report that concluded that U.S. production of specialized milk proteins is "limited, and likely to remain limited, so long as the current Federal Milk Marketing Order and Dairy Price Support Program remain in effect." The market needs these proteins, and we need these proteins for our dairy industry to grow, so it is up to Congress to reduce the policy obstacles, which stand in the way.

America's dairy industry must maintain its strong global position. In fact, the combination of the Doha Development Agenda in the WTO, U.S. free trade agreements and the Farm Bill renewal process are all aligned to provide us an historic opportunity. We now sit on the verge of arguably the best opportunity we have had in decades to get our policy cards put together in a way that gives the U.S. the best hand at the table among major dairy producers in the world. We must not waste it. We should also not sit in a defensive policy crouch, blame others, and squander this chance to build a better policy platform that encourages our already enormous efficiencies and resources to grow even more. However, Mr. Chairman, with or without an agreement out of Doha, it is imperative that we remain committed, as a nation, to see that commerce, not government regulations, guide the investment and production decisions companies like Schwan make every day.

Mr. Chairman, The Schwan Food Company prides itself on making products with the highest quality dairy ingredients. It is a pride that can be shared by all American dairy farmers. Farmers and processors are involved collaboratively in today's business environment and we must do the same on policies. Let us work together to maintain that standard of quality and address these pressing issues. I am confident we can rise to the challenge so that our next generation of Schwan employees worldwide can continue the rich tradition established by Marvin Schwan fifty-four years ago. Schwan and the dairy industry stand ready to help you in this endeavor.

Again, thank you for the opportunity to testify today. I look forward to your questions.